

OFFICE OF RISK MANAGEMENT
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA



MANAGEMENT LETTER
ISSUED FEBRUARY 13, 2008

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDIT ADVISORY COUNCIL
SENATOR EDWIN R. MURRAY, CHAIRMAN
REPRESENTATIVE CEDRIC RICHMOND, VICE CHAIRMAN

SENATOR NICK GAUTREAUX
SENATOR WILLIE L. MOUNT
SENATOR BEN W. NEVERS, SR.

LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

DIRECTOR OF FINANCIAL AUDIT
PAUL E. PENDAS, CPA

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Six copies of this public document were produced at an approximate cost of \$14.46. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.state.la.us. When contacting the office, you may refer to Agency ID No. 8402 or Report ID No. 80070017 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne "Skip" Irwin, Director of Administration, at 225-339-3800.



LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

January 29, 2008

**OFFICE OF RISK MANAGEMENT
DIVISION OF ADMINISTRATION
STATE OF LOUISIANA**
Baton Rouge, Louisiana

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 2007, we considered the Office of Risk Management's internal control over financial reporting; we examined evidence supporting certain accounts and balances material to the State of Louisiana's financial statements; and we tested the office's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements as required by *Government Auditing Standards*.

The Annual Fiscal Report of the Office of Risk Management is not audited or reviewed by us, and, accordingly, we do not express an opinion on that report. The office's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

In our prior management letter on the Office of Risk Management for the year ended June 30, 2006, we reported findings relating to the unfunded claims costs for the road hazard line of insurance, lack of internal audit function, weaknesses in controls over small claim payments, and checks not voided timely or reissued properly. The findings related to weaknesses in controls over small claim payments and checks not voided timely or reissued properly have been resolved by management. The findings relating to the unfunded claims costs for the road hazard line of insurance and the lack of an internal audit function are addressed again in this letter.

Based on the application of the procedures referred to previously, all significant findings are included in this letter for management's consideration. All findings included in this management letter that are required to be reported by *Government Auditing Standards* will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2007.

**Unfunded Claims Costs for the
Road Hazard Line of Insurance**

For the fourth consecutive year, the Office of Risk Management (ORM) allocated costs associated with processing road hazard claims, including legal fees, to the road hazard line of insurance without collecting premiums or receiving appropriations to cover these costs. The deficit in the road hazard line of insurance continues to increase each year by

the costs associated with processing road hazard claims because ORM does not receive any funds to cover these costs. At June 30, 2007, ORM has accumulated a deficit of over \$563 million in the road hazard line of insurance. For the year ended June 30, 2007, costs associated with processing road hazard claims totaled \$10.2 million, but no insurance premiums or state appropriations were collected to cover these costs. Sound business practice dictates that premiums or appropriations should be collected to fund required claim payments, settlements, and associated costs for each line of insurance.

The Division of Administration made a decision effective July 1, 2002, that ORM would no longer pay settlements and judgments for road hazard claims from premiums collected. Settlements and judgments are now paid through direct legislative appropriation. However, no provision has been made for the associated costs of processing road hazard claims, including legal fees, other professional services, and salaries for the adjusters handling the claims. ORM included an estimate of premiums for the road hazard line of insurance in its budget request submitted to the Office of Planning and Budget for the year ended June 30, 2007. However, the Office of Planning and Budget cut 100% of the road hazard premium from the budget request.

The Division of Administration and ORM should develop premiums and/or present suggestions to the legislature as to how the state might fund future costs associated with processing road hazard claims, as well as recommending a funding methodology to eliminate the accumulated deficit over time. Management concurred with the finding and recommendation and outlined a corrective action plan (see Appendix A, page 1).

No Internal Audit Function

For the third consecutive year, ORM did not have an internal audit function to examine, evaluate, and report on its internal controls, including information systems, and to evaluate compliance with the policies and procedures that comprise internal controls. Act 47 of the 2006 Regular Session of the Louisiana Legislature requires ancillary agencies with budgets in excess of \$30 million to use existing program resources and the table of organization to establish an internal auditor position. Considering ORM's reported assets of \$224,272,701 and revenues of \$268,605,819, an effective internal audit function is important to ensure that assets are safeguarded and that management's policies and procedures are uniformly applied.

Management should establish an internal audit function to provide assurance that assets are safeguarded and to ensure that management's policies and procedures are applied in accordance with management's intentions. Management concurred with the finding and recommendation and outlined a corrective action plan (see Appendix A, page 2).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the office. The varying nature of the recommendations, their implementation costs, and their potential impact on the operations of the office should be considered in reaching decisions on courses of action. Findings relating to

the office's compliance with applicable laws and regulations should be addressed immediately by management.

This letter is intended for the information and use of the office and its management, others within the office, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Steve J. Theriot, CPA
Legislative Auditor

NM:ES:PEP:sr

ORM07

This page is intentionally blank.

Management's Corrective Action
Plans and Responses to the
Findings and Recommendations



KATHLEEN BABINEAUX BLANCO
GOVERNOR

State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF RISK MANAGEMENT

JERRY LUKE LEBLANC
COMMISSIONER OF ADMINISTRATION

December 17, 2007

Mr. Steve J. Theriot
Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Office of Risk Management Audit Findings

Dear Mr. Theriot:

Finding: Unfunded Claims Costs for the Road Hazard Line of Insurance

The Office of Risk Management (ORM) concurs with the finding.

ORM calculates and includes an amount for premiums in the road hazard line of insurance in its budget request each year to cover current year cash needs and reduce the \$562 million plus accumulated deficit. There is an Attorney General opinion that Transportation Trust Fund monies cannot be used to pay insurance premiums. Since Fees and Self Generated Revenue collected by the Department of Transportation and Development is not sufficient to pay the premium, the Legislature would have to appropriate monies from other funds to pay the premium. In FY 08, the Legislature appropriated \$9,950,000 to ORM from the General Fund to offset the costs of processing and defending road hazard claims. The Legislature continues to appropriate funds to directly pay specific road hazard judgments.

ORM will continue to actuarially calculate premiums for the road hazard insurance line and submit them in the Office of Risk Management annual budget request. In addition, ORM will emphasize the cost of processing road hazard claims within the budget request.

The contact person for this finding is J. S. "Bud" Thompson, Jr.

Sincerely,


J. S. "Bud" Thompson, Jr.
State Risk Director

JST/THA/tha



State of Louisiana
DIVISION OF ADMINISTRATION
OFFICE OF RISK MANAGEMENT

KATHLEEN BABINEAUX BLANCO
GOVERNOR

JERRY LUKE LEBLANC
COMMISSIONER OF ADMINISTRATION

December 17, 2007

Mr. Steve J. Theriot
Legislative Auditor
Office of the Legislative Auditor
State of Louisiana
P. O. Box 94397
Baton Rouge, LA 70804-9397

RE: Office of Risk Management Audit Findings

Dear Mr. Theriot:

Finding: No Internal Audit Function

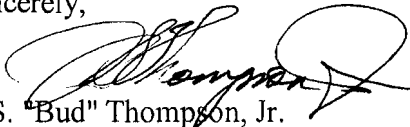
The Office of Risk Management (ORM) concurs with the finding.

Prior to 2006, ORM had requested and received reviews from the State Inspector General's Office. Because of organizational changes and the two hurricanes, this was not accomplished in FY 06 or FY 07.

An internal audit organization was established in the DOA Commissioner's office and ORM management has met with their staff to facilitate fulfilling ORM audit requirements. The DOA audit staff will begin performing audit functions in ORM in FY 08.

The contact person for this finding is J. S. "Bud" Thompson, Jr.

Sincerely,


J. S. "Bud" Thompson, Jr.
State Risk Director

JST/THA/ta